

Message Text

SECRET

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ACTION SS-25

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FM AMEMBASSY PARIS

TO WHITE HOUSE SITUATION ROOM IMMEDIATE

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S E C R E T PARIS 26519

EXDIS

FOR GENERAL SCOWCROFT FM ROBERT HORMATS

PLEASE PASS TO SECRETARY KISSINGER IF YOU THINK IT APPROPRIATE.

E.O. N/A

TAGS: EAGR, ENRG, US, UR

SUBJECT: SOVIET OIL/GRAIN NEGOTIATIONS

I HAVE DISCUSSED IN DETAIL THE SOVIET OIL/GRAIN NEGOTIATIONS
WITH CHUCK ROBINSON, AND WANTED TO SHARE WITH YOU THE FOLLOWING
VIEWS:

-- IT APPEARS UNLIKELY THAT WE WILL BE ABLE TO EXTRACT FROM
THE SOVIETS A MAJOR OIL PRICE DISCOUNT WHICH CAN BE OF USE
PUBLICLY IN THE U.S. AS DEMONSTRATION OF THE CONCESSIONS
OBTAINED THROUGH USE OF U.S. AGRO-POWER. THE SOVIETS ARE NOT
ANXIOUS TO SELL US OIL IN THE FIRST PLACE, SINCE THEY ALREADY
HAVE EXPORT COMMITMENTS. THEY ARE EVEN LESS ANXIOUS TO SELL
OIL AT A HIGHLY CONCESSIONAL PRICE, BECAUSE THEY CAN READILY
OBTAIN WORLD MARKET PRICES FROM OTHER COUNTRIES, (A 15
PERCENT DISCOUNT IMPLIES OVER \$600 MILLION DOLLARS OF SOVIET
"AID" TO THE US OVER THE FIVE YEAR PERIOD OF THE AGREEMENT.) IF
WE WITHHELD FOOD EXPORTS TO AN OPEC COUNTRY TO PRESSURE FOR SUCH
A LOPSIDED AGREEMENT, THAT COUNTRY WOULD PROBABLY CLAIM FOUL
PLAY AND BE INCLINED TO BREAK RELATIONS WITH US. THE SOVIETS

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NEED OUR GRAIN, AND ARE MORE SOPHISTICATED, BUT THEIR FEELINGS

WITH RESPECT TO OUR TACTICS ARE CERTAINLY NO LESS INTENSE.

-- CHUCK HAS OBTAINED MAJOR CONCESSIONS FROM THE SOVIETS ALREADY. THE GRAIN AGREEMENT IS A PIECE OF SUPERB CRAFTSMANSHIP WHICH CAN BE SOLD TO BOTH AMERICAN FARMERS AND CONSUMERS WITHOUT ANY APOLOGIES WHATSOEVER. WE HAVE AN ESCAPE CLAUSE IN THE EVENT OF A U.S. GRAIN SHORTAGE; THE SOVIETS HAVE NO COUNTERPART ESCAPE CLAUSE TO AVOID PURCHASES OF U.S. GRAIN WHEN THEY HAVE LARGE SURPLUSES. THE MARITIME AGREEMENT IS A MAJOR PLUS FOR THE U.S. GOVERNMENT AND OUR SHIPPING INDUSTRY. AND THE LIKELY AGREEMENT ON OIL--GIVING THE U.S. A 5-YEAR PURCHASE OPTION WITHOUT A U.S. PURCHASE COMMITMENT-- CAN BE SOLD AS PART OF OUR EFFORT TO DIVERSIFY SOURCES OF U.S. IMPORTS, EVEN IF WE CANNOT FLAUNT A PIECE OF PAPER GIVING US DRAMATIC PRICE CONCESSIONS. WE WOULD ALSO HAVE THE PURCHASE OPTION IN OUR HIP POCKET FOR USE IN THE EVENT OF AN ARAB EMBARGO.

-- WE CANNOT, GIVEN U.S. DOMESTIC AGRICULTURAL PRESSURES, PLAY A VERY LONG WAITING GAME WITH THE SOVIETS, FORCING THEM TO SUCCUMB TO OUR DEMANDS ON OIL BY WITHHOLDING NEW U.S. GRAIN SALES. IN RECENT WEEKS THEY HAVE PURCHASED 3 MILLION TONS OF GRAIN. THEY ARE NOT NOW IN A POSITION TO IMPORT LARGE ADDITIONAL AMOUNTS OF GRAIN DUE TO CONGESTION IN THEIR DISTRIBUTION SYSTEM. THUS, THEY NEED NOT MAKE NEW GRAIN PURCHASES FROM THE US FOR A NUMBER OF WEEKS. IN THE MEANTIME, FARMER PRESSURE ON THE PRESIDENT WILL BUILD, CONVINCING THE SOVIETS THAT THEY NEED NOT MAKE MAJOR CONCESSIONS ON OIL BECAUSE, INEVITABLY, WE WILL HAVE TO LIFT THE MORATORIUM AND SELL ADDITIONAL AMOUNTS OF GRAIN TO THEM THIS YEAR, EVEN IN THE ABSENCE OF AN OIL AGREEMENT. MORE IMPORTANTLY, THEY MAY COME TO BELIEVE THAT THEY DO NOT EVEN NEED TO GO AHEAD WITH THE LONG-TERM GRAIN AGREEMENT, BECAUSE FARMER PRESSURE WILL SHORTLY FORCE THE PRESIDENT TO LIFT THE MORATORIUM. THUS, OUR BARGAINING LEVERAGE ON OIL, AND OUR ABILITY TO HOLD THE SOVIETS TO WHAT HAS BEEN AGREED TO ON GRAIN, WILL BEGIN TO DIMINISH RAPIDLY.

FOR THE ABOVE REASONS, AND FOR THE MANY REASONS THAT CHUCK HAS OUTLINED IN HIS RECENT CABLES TO YOU, I RECOMMEND THAT YOU AUTHORIZE CHUCK TO RETURN TO MOSCOW BY WEDNESDAY TO TRY TO WRAP UP
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THE GRAIN AGREEMENT, SECURE THE MOST FAVORABLY POSSIBLE LETTER OF INTENT ON OIL, AND ANNOUNCE JOINTLY WITH THE SOVIETS THE CONCLUSION OF BOTH AGREEMENTS (WITH DETAILS ON OIL TO BE WORKED OUT.) MEANWHILE, BACK HOME, WE SHOULD BE ATTEMPTING TO SELL BOTH AGREEMENTS AS BENEFICIAL TO OUR INTERESTS IN STABLE MARKETS FOR GRAIN AND IN DIVERSIFICATION OF OIL IMPORTS, RATHER THAN AS A VICTORY OVER THE SOVIETS.
RUSH

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